



# **Department of Veterans Affairs Office of Inspector General**

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## **Audit of VA Acquisitions for Other Government Agencies**

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## Executive Summary

### Introduction

The Office of Inspector General (OIG) performed an audit to determine whether VA acquisitions for other Government agencies (OGAs) were conducted effectively, efficiently, and in accordance with applicable laws and regulations. Our audit objectives were to determine whether: (1) VA acquisitions for OGAs were made in accordance with Federal and VA acquisition regulations and policies, (2) cost reimbursements and revenues associated with interagency acquisitions were authorized and properly accounted for, and (3) VA contracting activities were making acquisitions for OGAs effectively and efficiently.

We visited five VA contracting activities responsible for making interagency acquisitions totaling about \$1.7 billion during fiscal years (FYs) 2003 and 2004, which represented about 99 percent of the total VA interagency acquisition workload during that period. We reviewed interagency acquisitions made by three Veterans Health Administration (VHA) contracting activities at the VA medical centers (VAMCs) in Dallas and Temple, TX, and Veterans Integrated Service Network (VISN) 21, Reno, NV, and two contracting activities operating under the VA Office of Acquisition and Materiel Management (OA&MM)—the VA Special Services (VASS) activity at Ft. Detrick, MD, and VAMC Tampa, FL.<sup>1</sup> At these 5 activities, we reviewed 164 acquisitions, totaling about \$109 million, to evaluate the process used to acquire goods and services for OGAs and to account for the related reimbursements. We also evaluated whether VA interagency acquisition programs were conducted in the most effective and efficient manner.

### Results

#### Augmentation of VA Appropriations

Two VHA contracting activities making interagency acquisitions under the authority of the Economy Act did not comply with provisions of the statute. The contracting activities at VAMCs Dallas and Temple charged service fees to OGAs that were not based on actual or estimated costs and retained fee revenues in excess of costs. As a result, these contracting activities improperly augmented VA appropriations by collecting about \$8.1 million in excess fees from OGAs in FYs 2003 and 2004. Also, two Cooperative Administrative Support Units (CASUs) managed by VAMC Temple collected about \$1.8 million in excess fees for the same period and, at the end of FY 2005, had accumulated retained earnings from excess fee charges of about \$2.1 million. CASUs are networks of Federal organizations chartered under the authority

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<sup>1</sup> Although the contracting activity making interagency acquisitions at VAMC Tampa is staffed by VHA employees, it processes acquisitions referred by VASS under a support agreement between OA&MM and VAMC Tampa.

of the Economy Act that provide common administrative services to Federal agencies on a cost reimbursable basis.

### Compliance with Acquisition Regulations

Contracting officers of VHA and OA&MM activities making interagency acquisitions often did not comply with Federal and VA acquisition regulations and policies. They did not: (1) ensure that acquisition plans were prepared, (2) adequately justify noncompetitive acquisitions, (3) ensure that required reviews were completed, and (4) properly designate contracting officer's technical representatives (COTRs). In addition, three of the five contracting activities audited—VAMCs Dallas, Tampa, and Temple—did not have quality assurance programs to monitor compliance with acquisition regulations and policies. Noncompliance with acquisition regulations and policies increases the risk that the Government will not procure the needed goods and services at fair and reasonable prices or on terms and conditions that are advantageous to the Government.

### VA Mission-Related Acquisitions

Contracting officers at the four contracting activities using the authority of the Economy Act—VAMC Dallas, VAMC Tampa, VAMC Temple, and VASS—made interagency acquisitions of goods and services that were not normally obtained by VA. In response to problems identified at VAMC Dallas, OA&MM issued an information letter on March 17, 2003, prohibiting VA contracting activities from processing interagency acquisition requests for goods, services, equipment, and construction that were not normally obtained by VA in carrying out its mission. Of the 117 Economy Act acquisitions included in our review that were made after the information letter was issued, we found that 35 (30 percent), valued at about \$15 million, were not within the normal scope of the VA mission and were inappropriate. Inappropriate acquisitions included consulting services for the Army's close combat weapons system and a training simulator for the B-52 aircraft bomb navigation system.

### Recovering Acquisition Costs

The VASS contracting activity did not promptly recover the costs of certain interagency acquisitions. VASS accounts receivable were not collected timely, and OGAs were not billed for certain acquisitions made with Government purchase cards. This occurred because responsible personnel did not aggressively pursue collection of accounts receivable and did not reconcile purchase card transactions. As a result, VA was at risk of losing as much as \$5.8 million. VASS officials took corrective actions as a result of our audit and reduced the value of outstanding accounts receivable more than 90 days old from about \$2.9 million at the end of FY 2004 to \$1.2 million at the end of FY 2005. During the same period, the amount of unbilled purchase card transactions was reduced from about \$2.9 million to \$497,000, which was written off as uncollectible.

## Management of Interagency Acquisition Programs

Insufficient oversight contributed to the significant deficiencies involving unauthorized revenue generation, improper acquisition procedures, and inappropriate acquisitions. At the time of our review, OA&MM officials were aware of certain deficiencies involving interagency acquisitions and had taken some corrective actions, including issuing two information letters concerning unauthorized revenue generation and inappropriate acquisitions. OA&MM also took action to have the Assistant Secretary for Management terminate VAMC Temple's agreements with the CASUs. However, we believe that centralized program management with appropriate oversight is needed to ensure that VA interagency acquisition programs are operating effectively, efficiently, and in compliance with applicable laws and regulations.

## **Recommendations**

We recommended that the Under Secretary for Health and the Assistant Secretary for Management take action to: (1) ensure that all contracting activities comply with revenue generation provisions of the Economy Act by charging service fees based on costs associated with making interagency acquisitions and transferring the excess service fees they collected to the U.S. Treasury's General Fund, (2) coordinate with the National CASU Board of Directors to determine proper disposition of the excess revenues retained by the two CASUs managed by VAMC Temple, (3) provide additional training for contracting personnel and establish a quality assurance/compliance program at each contracting activity involved with interagency acquisitions, (4) ensure that interagency acquisitions are limited to goods and services related to the VA mission, (5) implement an effective collection program for funds owed by OGAs and change the process for funding future interagency acquisitions made by VASS, and (6) centralize management of interagency acquisition programs under OA&MM.

## **Comments**

The Under Secretary for Health agreed with, and provided acceptable implementation plans for, all of the recommendations addressed to him except Recommendation 6 to centralize management of all VA interagency acquisition programs under OA&MM. He agreed to transfer management of interagency acquisitions made under the authority of the Economy Act to OA&MM. However, he did not agree to transfer management of interagency acquisitions made under the authority of the VA-Department of Defense (DoD) Healthcare Resources and Emergency Operations Act pending an opinion by the VA Office of General Counsel (OGC) concerning restrictions on using this authority. The opinion is expected by June 2006. See Appendix A, pages 25–34, for the complete text of the Under Secretary's comments.

The Assistant Secretary for Management agreed with, and provided acceptable implementation plans for, all but one of the recommendations addressed to him. He disagreed with Recommendation 5b to ensure that the estimated costs of future interagency acquisitions made by VASS are transferred to VA as advance payments before making the acquisitions. However, as an alternative, he proposed to process collections and payments using a DoD system that allows access to, and obligation of, DoD funds without actually transferring the funds. This alternative is acceptable. See Appendix B, pages 35–39, for the complete text of the Assistant Secretary’s comments.

Because the Under Secretary did not agree to centralize management of all VA interagency acquisitions under OA&MM, we consider Recommendation 6 unresolved pending the Under Secretary’s decision concerning interagency acquisitions made under the authority of the VA-DoD Healthcare Resources and Emergency Operations Act. We will follow up on the Under Secretary’s decision on this issue and on the implementation of planned improvement actions.

*(original signed by:)*

MICHAEL L. STALEY  
Assistant Inspector General  
for Auditing

## Introduction

### Purpose

The purpose of the audit was to determine whether VA acquisitions for OGAs were conducted effectively, efficiently, and in accordance with applicable laws and regulations. Our audit objectives were to determine whether: (1) VA acquisitions for OGAs were made in accordance with Federal and VA acquisition regulations and policies, (2) cost reimbursements and revenues associated with interagency acquisitions were authorized and properly accounted for, and (3) VA contracting activities were making acquisitions for OGAs effectively and efficiently.

### Background

**Growth of Interagency Acquisition Programs.** The use of interagency acquisition programs has grown considerably in recent years as Federal agencies have taken advantage of contracts and acquisition services offered by other agencies on a reimbursable fee basis. Federal agencies often use existing interagency contracts and other contract instruments to save the time and administrative effort generally associated with soliciting and awarding a new contract for required goods or services. The acquisition services obtained through these interagency contracts vary widely, from simply placing orders against existing contracts or related contract instruments to solicitation and award of new contracts specifically for a requesting agency. This increased use of interagency contracts has come about as a result of various legislative reforms passed in the 1990s that allowed Federal agencies to streamline the acquisition process, operate more business-like, and offer increasing types of services to other agencies on a reimbursable basis.

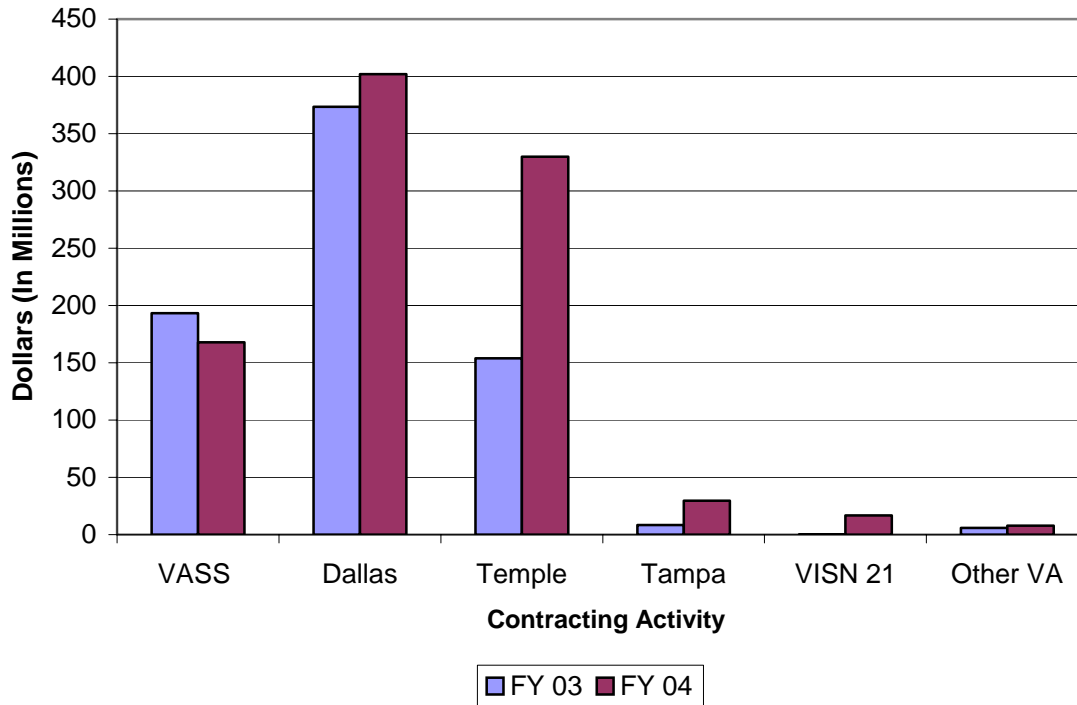
The fee-for-service acquisition process generally involves three parties: (1) the agency requiring the goods or services (requesting agency), (2) the agency placing the order or awarding the contract (servicing agency), and (3) the contractor providing the requested goods or services. In most cases, the requesting agency sends the interagency acquisition request directly to the servicing agency. In other cases, the requesting agency sends the acquisition request through a CASU, which in turn has the servicing agency acquire the requested goods or services. Under an agreement between the CASU and the servicing agency, all service fees collected are divided based on an established allocation rate.

**Implementation of VA Interagency Acquisition Programs.** In response to various acquisition initiatives in the 1990s, VA contracting activities implemented interagency acquisition programs that have grown in recent years. During the period of our review, the cost of goods and services obtained through VA interagency acquisition programs increased by about 30 percent, from about \$736 million in FY 2003 to \$954 million in FY 2004. The value of interagency acquisitions made by each of the five VA contracting



activities reviewed—VASS, VAMC Dallas, VAMC Temple, VAMC Tampa, and VISN 21—and the other VA contracting activities combined, is illustrated in the following chart.

**OGA Acquisition Workload for FY 03 and FY 04**



Interagency acquisition programs at each of the five VA contracting activities audited are briefly described below:

- **VASS.** The VASS contracting activity, an organizational element of OA&MM's Acquisition Operations Service (AOS), was established in 1998 specifically to support Department of the Air Force medical units and facilities. At the time of our review, VASS had a total of 18 positions for contract specialists, purchasing agents, and support personnel. VASS is currently providing interagency acquisition services under an interagency support agreement between OA&MM and the Air Force Medical Service.
- **VAMC Dallas.** The contracting activity at VAMC Dallas does not maintain a separate organizational element to provide interagency acquisition services. VAMC Dallas contracting personnel split their time, providing acquisition services for both VA and OGA customers. VAMC Dallas also has personnel in Fiscal Service and other activities who provide support for interagency acquisitions. During FY 2004, VAMC Dallas listed 22 contracting and support personnel who allocated 25 percent

or more of their time to the OGA workload. The VAMC Dallas contracting activity negotiated interagency agreements directly with OGA customers.

- VAMC Temple. VAMC Temple provided interagency acquisition services as the lead agency for the Southeast Regional and Greater Hampton Roads CASUs. The CASU program was an initiative of the President's Council on Management Improvement intended to save the Government money on the cost of providing administrative services such as shipping and photocopying by consolidating common functions into bigger, more efficient units. Under the general direction of the CASU directors, the lead agency is responsible for acquiring equipment and supplies, hiring personnel, and managing the operations to provide the administrative services to all of the participating agency offices. Each agency then enters into agreements under the Economy Act to purchase the services it needs from the lead agency and to reimburse the lead agency for its costs of supplying those services. As lead agency for the CASUs, VAMC Temple assigned 11 contracting and support personnel who spent all of their time, and 2 other personnel who spent about 50 percent of their time, on CASU business. In addition, the CASUs employed four marketing directors and three other full-time personnel located in San Diego, CA, Lynn Haven, FL, Dallas, TX, and Hampton, VA.
- VAMC Tampa. VAMC Tampa has a separate organizational element within its contracting activity that provides interagency acquisition services. The OGA element at VAMC Tampa is essentially an extension of VASS, which refers interagency acquisition requests to that element under an agreement between OA&MM and the medical center. However, the VAMC Tampa contracting activity retains management control over the two contract specialists and one purchasing agent assigned to the OGA element.
- VISN 21. VISN 21 has established a consolidated contracting activity at the VISN level instead of separate contracting activities at each individual medical center. The consolidated contracting activity has a separate revenue team that provides interagency acquisition services, with one contract specialist providing dedicated contracting support and the team leader devoting about 50 percent of his time to marketing and supervising interagency acquisition programs.

**Statutory Authorities for Interagency Acquisitions.** Two statutes provide general authority for VA contracting activities to conduct interagency acquisition programs on a reimbursable fee basis. The cost reimbursement and revenue generation requirements prescribed by each of these statutes are listed below:

- The Economy Act, 31 U.S.C. 1535. This act authorizes VA to sell supplies and services, including acquisition services, to OGAs under interagency agreements. When appropriated activities sell acquisition services under this authority, VA may not charge OGAs more than the actual or estimated costs of entering into and administering each contract. Fee reimbursements that exceed actual or estimated costs may not be retained but must be returned to the agency providing the fees, if

feasible, or the funds must be transferred to the miscellaneous receipts account of the U.S. Treasury's General Fund.

- The VA-Department of Defense Healthcare Resources and Emergency Operations Act, 38 U.S.C. 8111. This act, more commonly known as the VA-DoD health care resources sharing act, is limited to the sale or exchange of health care resources between VA and DoD medical facilities.

## Scope and Methodology

We visited five VA contracting activities that made interagency acquisitions totaling about \$1.7 billion in FYs 2003 and 2004 combined, which represented about 99 percent of the total VA interagency acquisition workload during that period. At these 5 contracting activities, we reviewed 164 interagency acquisitions made during FYs 2003 and 2004, with a total value of about \$109 million, which we selected to:

- Assess the acquisition process used by the five contracting activities to determine whether they were complying with the Federal Acquisition Regulation (FAR), VA Acquisition Regulation (VAAR), and applicable VA policies.
- Evaluate the accounting process for cost reimbursements and related revenues.
- Ascertain whether VA contracting activities provided interagency acquisition support effectively and efficiently.

Of the 164 interagency acquisitions we reviewed, 142 were made under the authority of the Economy Act. The remaining 22 interagency acquisitions were made under the authority of the VA-DoD Healthcare Resources and Emergency Operations Act.

As part of this audit, we interviewed senior OA&MM officials and officials at the five contracting activities regarding acquisition policies, procedures, and management initiatives. We also contacted senior officials in the VA Office of Management and VA Office of Finance regarding the lead agency agreements between VAMC Temple and the two CASUs it managed, which were being terminated during our audit.

To achieve the audit objectives, we relied on computer-processed data contained in VA's Financial Management System. We assessed the reliability of the data we used by reviewing procedures for entering the data at each audit site and by comparing data input and output for selected transactions to source documents. We identified no deficiencies in the computer-processed data we tested. Based on our assessment, we concluded the data were sufficiently reliable to be used in meeting the audit objectives.

The audit was performed from August 2004 to July 2005 in accordance with Generally Accepted Government Auditing Standards and included the tests of management controls that we considered necessary under the circumstances.

## Results and Conclusions

### Issue 1: Augmentation of VA Appropriations

#### Findings

Two VHA contracting activities making interagency acquisitions under the authority of the Economy Act did not comply with provisions of the statute. The contracting activities at VAMCs Dallas and Temple charged service fees to OGAs that were not based on actual or estimated costs and improperly retained fee revenues in excess of costs. This occurred because contracting activity personnel misinterpreted or overlooked revenue generation guidance. As a result, the two contracting activities illegally augmented VHA appropriations by collecting about \$8.1 million in excess fees from OGAs in FYs 2003 and 2004. Also, two CASUs managed by VAMC Temple's contracting activity collected about \$1.8 million in fees that exceeded the actual costs for the same period and, at the end of FY 2005, had accumulated retained earnings from excess fee charges of about \$2.1 million.

#### Service Fees Were Not Based on Actual or Estimated Costs

The origin, legislative history, and general requirements of the Economy Act are described in the *Principles of Federal Appropriations Law*. According to these principles, reimbursements to the servicing agency must be based on the actual or estimated costs associated with the services provided. While the cost determination is not required to be exact, the amount should be the result of a bona fide attempt to determine the actual costs and, in fact, reasonably approximate the actual costs. Actual costs include direct costs incurred by the servicing agency such as salaries, materials, or equipment. In addition, certain indirect or overhead costs may be included if they meet two conditions: they bear a significant relationship to the service provided and they are funded from current year appropriations. The principles stipulate that charging more than actual costs improperly augments the servicing agency's appropriations, while charging less than actual costs improperly augments the requesting agency's appropriations.

The VAMCs Dallas and Temple contracting activities did not charge service fees based upon actual or estimated costs incurred, and contracting activity officials could not provide cost data to justify the specific rates they charged. These contracting activities did not maintain accurate and detailed records of their costs for the purpose of establishing or monitoring service fees. Instead of using documented costs, they charged OGAs flat fee rates ranging from 1 to 3 percent of the values of the acquisitions. Generally, the rates varied based upon the acquisition method. Lower rates were charged for acquisitions from existing Government contracts, and higher rates were charged when new contracts were awarded.

### Fee Revenues Exceeding Costs Were Retained

The excess revenues that were obtained by the contracting activities at VAMCs Dallas and Temple were placed in their medical care accounts, which was an improper augmentation of the medical care appropriation.

Based on information provided by each facility, we determined that revenues exceeded costs by about \$8.1 million in FYs 2003 and 2004 combined. The amounts of excess revenues were about \$3.9 million for VAMC Dallas and \$4.2 million for VAMC Temple, as shown in Table 1:

**Table 1. Excess Revenues**

<u>Fiscal Year</u>	<u>VAMC Dallas</u>	<u>VAMC Temple</u>
2003	\$1,753,854	\$1,408,834
2004	<u>2,165,138</u>	<u>2,749,248</u>
Totals	\$3,918,992	\$4,158,082

The two contracting activities collected revenues that were more than double the identified costs in both fiscal years. Our computations were made using the criteria prescribed in appropriation law principles; we included all direct costs and those indirect or overhead costs that were significantly related to the services provided and that were funded from current year appropriations.

### Excess Revenues Should Be Transferred to the U.S. Treasury

The retention of service fees that exceed actual or estimated costs of providing interagency acquisition services is an improper augmentation of appropriated funds. Therefore, the funds must be returned to the purchasing agency or transferred to the miscellaneous receipts account of the U.S. Treasury's General Fund. Because both FYs 2003 and 2004 appropriations have expired, the latter is the only remedy available.

### CASUs Also Retained Excess Fee Revenues

The Southeast Regional and Greater Hampton Roads CASUs also retained excess fee revenues from interagency acquisitions. As the lead agency for the CASUs, VAMC Temple shared service fees with the CASUs. Each CASU's share of the fees was credited to its retained earnings account, which was maintained in a non-expiring VHA appropriation. The CASUs' combined fee revenues exceeded their costs by about \$746,000 in FY 2003 and \$1,007,000 in FY 2004. At the end of FY 2005, the CASUs had accumulated retained earnings from excess fee charges of about \$2.1 million.

In memorandums dated August 16 and November 22, 2004, the VA Acting Assistant Secretary for Management informed the National CASU Board of Directors that VA had decided to terminate the interagency agreements with the CASUs by August 16, 2005, if another lead agency was not found. The primary reason given for the planned termination was that VA does not have the subject matter expertise to manage DoD requirements unrelated to health care. We were subsequently informed that the CASUs did not find another lead agency, and VAMC Temple is phasing out the CASU workload. Once this is accomplished, the excess revenues retained by these CASUs to sustain operations should be transferred to the U.S. Treasury. This action will require coordination with the National CASU Board of Directors.

#### Officials Had No Authority To Generate Revenue

Officials of the VAMCs Dallas and Temple contracting activities told us that they believed two revenue generation initiatives allowed them to collect and retain service fees that exceeded costs. These officials cited the passage of the Veterans' Health Care Eligibility Reform Act of 1996, 38 U.S.C. 8153, and the establishment of a VHA strategic goal in 1997 to increase revenues obtained from nonappropriated fund sources by 10 percent from FY 1998 to FY 2003 as major factors in the growth of interagency acquisition programs. Neither the statute nor VHA's strategic goal was a proper basis for generating revenue.

The Veterans Health Care Eligibility Reform Act was not cited in any of the contracts awarded by the VHA contracting activities as the basis for the contracts. All of the agreements between VHA and OGAs were under the Economy Act or the VA-DoD health care resources sharing act. More importantly, the Veterans Health Care Eligibility Reform Act is limited to selling health care resources, not acquisition services, and does not apply to agreements between VA and OGAs except for the sale of services limited to the use of medical equipment and space.

Similarly, the VHA goal to increase revenues by 10 percent applied only to nonappropriated sources, not OGAs that are purchasing the goods and services with appropriated funds.

Because of concerns that VA contracting activities were misinterpreting revenue generation guidance, OA&MM officials issued Information Letter 049-05-04, "Revenue Generation Contracting Authority," on December 28, 2004. The information letter clarified many of the revenue generation principles and authorities that apply to interagency acquisitions. Neither the information letter nor any other policy or directive from OA&MM or VHA instructed VA contracting activities to report excess revenues from interagency acquisitions made under the Economy Act to VA Central Office (VACO) or transfer the funds to the U.S. Treasury.

## Conclusion

The VHA contracting activities at VAMCs Dallas and Temple charged service fees that were not in compliance with the Economy Act. These contracting activities charged flat fee rates that exceeded actual or estimated costs and retained excess fee revenues without authority to do so. As a result, they inappropriately collected and retained about \$8.1 million in excess fee revenues in FYs 2003 and 2004. Also, the two CASUs managed by VAMC Temple collected excess fee revenues of about \$1.8 million for the same period.

**Recommendation 1.** We recommended that the Under Secretary for Health: (a) require VHA contracting activities making interagency acquisitions to maintain accurate and detailed records of the costs incurred, use those costs to establish service fees, and adjust service fees as necessary; (b) take action to identify expired funds corresponding to the excess revenues retained by VAMCs Dallas and Temple for FYs 2003 and 2004 and, based on availability of such funds, transfer the appropriate balances to the miscellaneous receipts account of the U.S. Treasury's General Fund; and (c) require VHA contracting activities operating interagency acquisition programs in FYs 2005 and 2006 to assess whether similar conditions with excess revenues exist and to take corrective actions as appropriate.

### Under Secretary for Health Comments

The Under Secretary for Health agreed with the recommendation. He stated that VHA is working with OA&MM to centralize contracting activities making interagency acquisitions using the Economy Act under OA&MM. During the transition period, VHA will obtain quarterly reports of costs incurred and revenues collected and ensure that service fees are adjusted as appropriate. The first quarterly report will be used to identify all outstanding excess revenues from FYs 2003 and 2004 at VAMCs Dallas and Temple and document the transfer of appropriate amounts to the U.S. Treasury. The second quarterly report will be used to identify outstanding excess revenues from FYs 2005 and 2006 and document the transfer of appropriate amounts to the U.S. Treasury. He estimated that costs and revenues would be assessed and funds transferred by October 31, 2006.

### Office of Inspector General Comments

The implementation plan is acceptable. We will follow up until planned actions are completed.

**Recommendation 2.** We recommended that the Assistant Secretary for Management coordinate with the National CASU Board of Directors to (a) request transfer of the excess revenues collected by the Southeast Regional and Greater Hampton Roads CASUs for FYs 2003 and 2004 to the miscellaneous receipts account of the U.S. Treasury's

General Fund and (b) determine the appropriate disposition of the fund balances remaining in the CASUs' retained earnings accounts.

### **Assistant Secretary for Management Comments**

The Assistant Secretary for Management agreed with the recommendation and stated that he would direct the National CASU Board of Directors to transfer excess revenues to the miscellaneous receipts account of the U.S. Treasury's General Fund. Also, staff from the VA Office of Finance will coordinate with the National CASU Board of Directors to determine the appropriate disposition of the funds remaining in the CASUs' retained earnings accounts.

### **Office of Inspector General Comments**

The implementation plan is acceptable. We will follow up until planned actions are completed.



## Issue 2: Compliance with Acquisition Regulations

### Findings

VHA and OA&MM contracting officers making interagency acquisitions often did not comply with acquisition regulations and policies. They did not ensure that acquisition plans were prepared, adequately justify noncompetitive acquisitions, ensure that required VACO reviews were completed, and properly designate COTRs. Contracting officers did not comply with applicable criteria because they gave higher priority to providing prompt service or thought their roles in interagency acquisitions were different than in acquisitions for VA. In addition, three of the five contracting activities audited—VAMCs Dallas, Tampa, and Temple—did not have quality assurance programs to provide systematic monitoring of compliance with acquisition regulations and policies. Noncompliance with acquisition regulations and policies increases the risk that the Government will not get the needed goods and services at the most advantageous terms.

#### Acquisition Plans Were Not Prepared

VAAR 807.105 requires a written acquisition plan for each acquisition expected to cost more than \$1 million. The plan must address all the technical, business, management, and other significant considerations that will control the acquisition and identify milestones at which decisions should be made. We reviewed the contract files for 26 acquisitions that required written acquisition plans, and 19 (73 percent) did not contain the required plans, as shown in Table 2:

**Table 2. Acquisition Plans Not Prepared**

<u>Contracting Activity</u>	<u>Required</u>	<u>Not Prepared</u>
VAMC Dallas	10	8
VAMC Tampa	1	1
VAMC Temple	7	7
VASS	8	3
VISN 21	<u>0</u>	<u>0</u>
Totals	26	19

#### Noncompetitive Acquisitions Were Not Adequately Justified

Contracting officers making interagency acquisitions often did not adequately justify noncompetitive acquisitions. Contracting officers have an obligation to promote and provide for full and open competition when soliciting offers and awarding Government contracts. However, FAR 6.302 identifies specific situations when contracting officers

are allowed to make acquisitions without full and open competition. Before making a noncompetitive acquisition, FAR 6.303 requires that the contracting officer prepare a written justification, which must address 12 specific elements. These elements include identification of the statutory authority permitting other than full and open competition and the contracting officer's certification that the justification is accurate and complete.

Of the 164 acquisitions reviewed, 101 required written justifications. Contracting officers did not fully comply with FAR requirements for justifying 41 (41 percent) of the noncompetitive acquisitions, as shown in Table 3:

**Table 3. Noncompetitive Acquisitions Not Adequately Justified**

<u>Contracting Activity</u>	<u>Justifications Required</u>	<u>No Justifications Prepared</u>	<u>Inadequate Justifications</u>
VAMC Dallas	26	3	4
VAMC Tampa	24	1	6
VAMC Temple	29	7	12
VASS	15	1	3
VISN 21	<u>7</u>	<u>2</u>	<u>2</u>
Totals	101	14	27

We considered justifications inadequate if 1 or more of the 12 required elements were not addressed. For example, of the 27 inadequate justifications, 24 did not include the contracting officers' certifications that the justifications were accurate and complete. At VAMC Dallas, a written justification was missing 9 of the 12 required elements, and another was missing 6 elements.

FAR 17.502 provides that the Economy Act may not be used by an agency to circumvent conditions and limitations imposed on the use of funds and may not be used to make acquisitions that conflict with any other agency's authority and responsibility. Some interagency acquisitions met source selection requirements of the FAR but did not meet requirements contained in the National Defense Authorization Act for FY 2002 (Section 803). Section 803 applies to DoD purchases of services from General Services Administration (GSA) Schedule contracts. Before DoD acquires services costing more than \$100,000 from GSA contracts, with certain exceptions, notice must be provided to all GSA contractors offering the required services, or to as many contractors as practicable, to ensure that offers are received from three contractors. If three offers are not received, the contracting officer must make a written determination that no additional contractors could be identified despite reasonable attempts to do so. When making interagency acquisitions for DoD, VA contracting officers must comply with Section 803. We identified eight acquisitions of services for DoD exceeding \$100,000—three at VAMC Dallas, two at VAMC Temple, two at VASS, and one at VISN 21—that met FAR

source selection requirements but did not meet Section 803 requirements. In each instance, the contracting officer did not ensure that offers were received from three contractors and did not make the required written determination.

#### Required VACO Technical/Legal Reviews Were Not Requested

VAAR 801.602-70 requires that OA&MM perform technical reviews of certain acquisitions prior to execution to ensure that applicable laws, regulations, and policies are followed. Some acquisitions also require legal reviews by OGC and technical reviews and business clearance reviews by OA&MM. These requirements apply to different types of acquisitions with varying dollar thresholds. For example, service contracts with estimated costs of \$500,000 or more and contracts for advisory and assistance services valued at \$250,000 or more require technical reviews. Service contracts with estimated values of \$5 million or more require technical, legal, and business clearance reviews.

Our review of contract files showed that most of the required VACO reviews were not requested. Thirty of the acquisitions we reviewed required technical/legal reviews. The reviews were not requested for 23 (77 percent) of the 30 acquisitions, as shown in Table 4:

**Table 4. VACO Technical/Legal Reviews Not Requested**

<u>Contracting Activity</u>	<u>Required</u>	<u>Not Requested</u>
VAMC Dallas	10	8
VAMC Tampa	1	1
VAMC Temple	11	11
VASS	7	2
VISN 21	<u>1</u>	<u>1</u>
Totals	30	23

In addition to the technical/legal reviews, four acquisitions required business clearance reviews. Contracting officers did not request the required reviews for three of the four acquisitions—two at VAMC Dallas and one at VAMC Temple. A contracting officer at VAMC Temple requested a business clearance review for the other acquisition, but it was not done because the acquisition had already been made.

#### Contracting Officer's Technical Representatives Were Not Properly Designated

The contracting officer is responsible for contract administration. However, the contracting officer may designate a COTR to monitor the contractor's performance. The COTR monitors compliance with all contract terms and reports any deviations to the contracting officer. The COTR must be capable of verifying that services have been

properly performed, goods provided meet contract specifications, and invoices are accurate. VAAR 801.603-70 requires that the contracting officer prepare a memorandum designating the COTR and describing the COTR's duties and responsibilities. The COTR designation memorandum must be signed by the contracting officer, acknowledged by the COTR in writing, and included as part of the contract documentation.

Contracting officers should have designated COTRs for 108 of the 164 acquisitions reviewed because there was an ongoing need to monitor the contractors' performance. We found that contracting officers did not properly designate COTRs for 73 (68 percent) of the 108 acquisitions:

- There was no evidence that the contracting officers had designated COTRs for eight acquisitions—four at VAMC Temple, two at VAMC Tampa, and two at VASS.
- In 59 contract files—34 at VAMC Temple, 16 at VAMC Dallas, 5 at VAMC Tampa, 2 at VASS, and 2 at VISN 21—there was some evidence, such as entries in the statements of work, indicating that COTRs had been assigned, but there were no memorandums designating the COTRs and describing the COTRs' duties and responsibilities.
- Six contract files—three at VAMC Dallas, one at VAMC Tampa, and two at VASS—contained memorandums designating COTRs, but the COTRs did not acknowledge the designations by signing the memorandums.

Contracting officers at VAMC Temple routinely used CASU personnel as COTRs for interagency acquisitions even though the CASU personnel were not employees of the requesting agencies, were not stationed at the work sites, and were not able to provide direct oversight of the contractors. For these reasons, we identified 38 COTRs, all of them CASU personnel, who were inappropriately functioning as COTRs.

#### Contracting Officers Did Not Give Compliance with Regulations Sufficient Priority

Contracting officers did not comply with acquisition regulations and policies because they gave higher priority to providing timely services to OGAs or they believed some of the criteria did not apply to interagency acquisitions. They were focused on satisfying OGAs' expectations and generating revenues. They indicated that preparing acquisition plans, properly justifying noncompetitive acquisitions, and ensuring that required VACO reviews were completed would have taken more time. Some mistakenly thought that acquisition plans and technical reviews were not required for interagency acquisitions. Also, some were not aware that they had to comply with Section 803 requirements when they were making acquisitions for DoD.

Only two of the five contracting activities audited—VASS and VISN 21—had internal quality assurance programs. Supervisors at the VASS contracting activity reviewed the

contract files before any acquisitions were made, and supervisors at VISN 21 reviewed the contract files before any acquisitions exceeding \$100,000 were made. The three other contracting activities did not perform systematic internal reviews to evaluate compliance with acquisition regulations and policies. Audit results showed that the two contracting activities with quality assurance programs overall had a higher degree of compliance with applicable criteria than the activities without such programs. Quality assurance programs, such as those implemented at VASS and VISN 21, enhance managers' ability to detect problems promptly, identify appropriate corrective actions, and monitor the effectiveness of those corrective actions.

By not complying with acquisition regulations and policies, contracting officers increased the risk that the Government would not get the best value for its money and that the requesting agencies would not get the goods and services they had paid for. In addition, it put the Government at risk in the event that an offeror or contractor filed a protest or claim.

## **Conclusion**

Contracting officers often did not prepare required acquisition plans, adequately justify noncompetitive acquisitions, ensure required reviews were done, and properly designate COTRs. They did not comply with applicable criteria because they gave higher priority to providing timely services to OGAs or thought the rules for interagency acquisitions were different than in acquisitions for VA. In addition, three of the five contracting activities audited did not have quality assurance programs to monitor compliance. Noncompliance with acquisition regulations and policies increases the risk that the Government will not get the needed goods and services at the most advantageous terms or will not be able to prevail in the event a protest or claim is filed.

**Recommendation 3.** We recommended that the Under Secretary for Health and the Assistant Secretary for Management take action to: (a) provide refresher training for contracting officers making interagency acquisitions and their supervisors concerning preparation of acquisition plans, justifications for noncompetitive acquisitions, completion of required VACO reviews, and designation of COTRs; (b) require that contracting activities making interagency acquisitions establish quality assurance programs to assess compliance with applicable criteria; and (c) monitor the contracting activities' compliance with regulations and VA policies governing interagency acquisitions.

## **Under Secretary for Health Comments**

The Under Secretary for Health agreed with the recommendation. He stated that VHA is working with OA&MM to centralize contracting activities making interagency acquisitions using the Economy Act under OA&MM. VHA staff will not make new interagency acquisitions under the authority of the Economy Act. Refresher training for

contracting officers making interagency acquisitions under the authority of the VA-DoD Healthcare Resources and Emergency Operations Act and their supervisors is pending an opinion by the VA OGC concerning restrictions on using this authority. The opinion is expected by June 2006.

#### **Assistant Secretary for Management Comments**

The Assistant Secretary for Management agreed with the recommendation and stated that, upon implementation of Recommendation 6 centralizing management of interagency acquisitions under OA&MM, OA&MM will assign and train highly qualified contracting officers to make interagency acquisitions and will establish internal quality assurance controls.

#### **Office of Inspector General Comments**

The implementation plans are acceptable. We will follow up until planned actions are completed.

## Issue 3: VA Mission-Related Acquisitions

### Findings

Contracting officers at the four contracting activities using the authority of the Economy Act—VAMC Dallas, VAMC Tampa, VAMC Temple, and VASS—made interagency acquisitions of goods and services that were not normally obtained in carrying out the VA mission. This occurred because contracting officers did not follow VA policy.

After discovering that a VHA contracting activity (VAMC Dallas) had made several interagency acquisitions related to military weapons systems, ship repairs, and combat aircraft components, OA&MM officials issued Information Letter 049-03-06, “Parameters of Contracting Authority,” on March 17, 2003. The information letter states, “In the conduct of acquisition services on behalf of Other Government Agencies (OGAs), contracting authority shall be limited to goods, services, equipment, and construction normally obtained by the Department of Veterans Affairs (VA) for VA in the course of carrying out its mission.”

Of the 164 interagency acquisitions reviewed, 117 were made by the 4 contracting activities using the authority of the Economy Act after the information letter was issued. We concluded that 35 (30 percent) of the 117 acquisitions, valued at about \$15 million, were for items that were not normally obtained in carrying out the VA mission and were inappropriate, as shown in Table 5:

**Table 5. Acquisitions Not Mission Related**

<b><u>Contracting Activity</u></b>	<b><u>Economy Act Acquisitions Reviewed</u></b>	<b><u>Number of Inappropriate Acquisitions</u></b>	<b><u>Value of Inappropriate Acquisitions</u></b>
VAMC Dallas	25	9	\$3,137,454
VAMC Tampa	40	9	806,965
VAMC Temple	35	14	9,032,202
VASS	<u>17</u>	<u>3</u>	<u>2,099,786</u>
Totals	117	35	\$15,076,407

Examples of inappropriate acquisitions included:

- A plastic media blasting system for helicopters
- Program support services for the Committee on Foreign Investment in the U.S.
- A submarine skills training network
- Management support for a target range at an Army facility

- Coral reef mapping in the western Pacific Ocean
- Services of an individual to fill an academic chair in mine warfare at the Naval Postgraduate School

Contracting officers made inappropriate interagency acquisitions because they did not comply with the OA&MM information letter. Some indicated that the information letter did not provide sufficient guidance concerning the types of items that should not be acquired and how the policy should be applied to ongoing contracts. We acknowledge that the information letter could be clarified to address concerns about its application to ongoing contracts. However, as illustrated by the examples above, most of the inappropriate acquisitions we identified were for goods or services that were obviously not related to the VA mission.

By acquiring goods or services not normally obtained in carrying out the VA mission, contracting officers increased the risk that they would not obtain the needed goods or services at the terms most advantageous to the Government.

## Conclusion

Contracting officers made inappropriate interagency acquisitions because they did not comply with applicable criteria. As a result, they increased the risk that the Government would not obtain the needed items at the most advantageous terms.

**Recommendation 4.** We recommended that the Assistant Secretary for Management provide additional guidance explaining how OA&MM Information Letter 049-03-06 should be applied to ongoing contracts. We also recommend that the Assistant Secretary for Management and the Under Secretary for Health take action to (a) train contracting officers making interagency acquisitions under the Economy Act and their supervisors concerning applicable VA policy and (b) monitor the appropriateness of interagency acquisitions.

### Under Secretary for Health Comments

The Under Secretary for Health agreed with the recommendation. He stated that VHA is working with OA&MM to centralize contracting activities making interagency acquisitions using the Economy Act under OA&MM. VHA staff will not make new interagency acquisitions under the authority of the Economy Act. During the transition period, VHA will work with OA&MM to identify the training necessary to ensure that acquisition activities are conducted appropriately.

### Assistant Secretary for Management Comments

The Assistant Secretary for Management agreed with the recommendation and stated that OA&MM will provide additional guidance regarding Information Letter 049-03-06.



Upon implementation of Recommendation 6 centralizing management of interagency acquisition programs under OA&MM, specialized training will be provided to contracting officers and their supervisors. Also, OA&MM will perform scheduled reviews of interagency acquisitions to ensure compliance with applicable VA policy.

**Office of Inspector General Comments**

The implementation plans are acceptable. We will follow up until planned actions are completed.

## Issue 4: Recovering Acquisition Costs

### Findings

VASS did not recover the costs of certain interagency acquisitions promptly as accounts receivable were not collected timely and OGAs were not billed for acquisitions made with Government purchase cards. This occurred because responsible personnel did not aggressively pursue collection of accounts receivable and did not reconcile purchase card transactions. As a result, VA was at risk of losing as much as \$5.8 million.

#### Accounts Receivable Were Not Collected Promptly

The OA&MM Service and Distribution Center (SDC), Hines, IL, which provides fiscal support for VASS, did not promptly review and collect accounts receivable resulting from interagency acquisitions. At the end of FY 2004, VASS had accounts receivable totaling almost \$2.9 million that were more than 90 days old. About \$1.1 million had been outstanding more than 180 days, and \$267,000 had been outstanding more than 1 year. The two oldest accounts receivable, totaling about \$29,000, had been outstanding since May 2001.

The Economy Act allows payments for interagency acquisitions to be made in advance or to be reimbursed when the requesting agency receives the required goods or services. VASS did not request advance payment for the estimated cost of interagency acquisitions but instead required concurrent processing of vendor payments and the transfer of funds from the requesting agency to VA. Frequently, after VA paid the vendor for the goods or services requested by an OGA, the requesting agency rejected the transaction and reversed the transfer of funds. This reversal sometimes occurred months after the requesting agency received the goods or services and VA paid the vendor. If VASS policy required that the requesting agencies transfer funds to VA before making interagency acquisitions, the number of accounts receivable and the risk of VA losses would be reduced. The other four VA contracting activities reviewed required that the estimated costs of interagency acquisitions be transferred in advance, and they were not experiencing significant problems with the collection of accounts receivable.

As a result of our review, VASS managers devoted more resources to pursue the collection of accounts receivable. As of September 30, 2005, the value of outstanding accounts receivable more than 90 days old had declined from almost \$2.9 million to \$1.2 million.

#### OGAs Were Not Billed

At the time of our review, SDC personnel had not billed OGAs for interagency acquisitions costing almost \$2.9 million although VA had paid the vendors for these acquisitions more than 1 year earlier. VASS personnel made these acquisitions during

the period November 1999 through September 2003 using Government purchase cards. When they received their monthly purchase card statements, VASS personnel did not reconcile the charges on their monthly purchase card statements with purchase orders and customer receiving reports and forward the documents to the SDC. Without this documentation, SDC personnel could not determine which OGAs should be billed. As a result, VA may lose the cost of the acquisitions made with Government purchase cards. In addition, SDC personnel could not identify duplicate billings or billings for incorrect amounts.

OA&MM instructed VASS personnel to stop using Government purchase cards for interagency acquisitions at the beginning of FY 2004 because of the high volume of unbilled purchase card transactions. VASS personnel complied with the instructions and were not using the purchase cards at the time of our review.

As a result of our review, an employee was assigned to investigate unbilled Government purchase card transactions, and, as of September 30, 2005, the amount of unbilled purchase card transactions had been reduced to \$497,000. SDC personnel wrote off the remaining balance because it was uncollectible.

## **Conclusion**

Accounts receivable were not collected promptly and OGAs were not billed for acquisitions because VASS and SDC personnel did not give these tasks sufficient priority. As a result, VA was at risk of losing as much as \$5.8 million comprising about \$2.9 million in uncollected accounts receivable and an additional \$2.9 million in unbilled purchase card transactions.

**Recommendation 5.** We recommended that the Assistant Secretary for Management require that VASS and SDC personnel: (a) aggressively pursue collection of the outstanding accounts receivable owed by OGAs; (b) ensure the estimated costs of future interagency acquisitions are transferred to VA as advance payments before making the acquisitions; and (c) promptly review all unbilled purchase card transactions, bill the requesting agencies when feasible, and cancel any transactions that cannot be billed.

## **Assistant Secretary for Management Comments**

The Assistant Secretary agreed with Recommendations 5a and 5c. He stated that the SDC has implemented a plan to aggressively collect accounts receivable owed by OGAs, and the value of accounts receivable more than 90 days old has been reduced to \$500,000. The SDC prepares a monthly report showing the ages of accounts receivable. The report is reviewed by top management, and personnel at the SDC and VASS work together to collect the older accounts receivable. He noted that VASS personnel have stopped using Government purchase cards for interagency acquisitions, and there are no

more unbilled purchase card transactions. Unbilled purchase card transactions that could not be collected have been written off.

The Assistant Secretary disagreed with Recommendation 5b on the basis that accepting advances would create accounting difficulties and would require a change in the agreement between the Air Force and VA. As an alternative, he proposed to process collections and payments using a DoD system that allows access to, and obligation of, DoD funds without actually transferring the funds. He believes use of the DoD system will ensure that VA is paid properly and promptly.

### **Office of Inspector General Comments**

The Assistant Secretary's proposed alternative to Recommendation 5b and the implementation plans for Recommendations 5a and 5c are acceptable. We will follow up until planned actions are completed.

## Issue 5: Management of Interagency Acquisition Programs

### Findings

Decentralized management did not provide sufficient oversight of interagency acquisition programs. VA had no central repository of information regarding interagency acquisition programs, and monitoring of these programs was inadequate. OA&MM officials in VACO were aware of certain deficiencies involving interagency acquisitions and had tried to take corrective actions. However, they were not aware of the magnitude of interagency acquisitions and the significance of related deficiencies. The lack of effective oversight contributed to serious deficiencies regarding unauthorized revenue generation, improper acquisition procedures, and inappropriate acquisitions as discussed in this report. To improve compliance with applicable laws, regulations, and VA policies, we believe the Department should centralize management of all interagency acquisition programs under OA&MM. Centralization would also provide opportunities to improve program efficiency and generate revenues for the Department.

#### Interagency Acquisition Programs Needed More Monitoring

VA did not have an effective process for monitoring interagency acquisition programs. When we began this audit, OA&MM officials in VACO were familiar with the interagency acquisition services provided by VASS, which is a component of its AOS activity, and VAMC Tampa, which processes acquisition requests referred by VASS under an agreement between OA&MM and the medical center's contracting activity. However, neither OA&MM nor VHA officials knew the full scope or magnitude of VA interagency acquisition programs. Therefore, they could not provide basic information such as the total number of interagency acquisitions, the value of these acquisitions, or the resources devoted to providing related acquisition services. These officials knew which VA facilities had the largest interagency acquisition programs, but they were not certain of the number of facilities operating such programs. Similarly, they knew that DoD was the largest customer for VA interagency acquisition services, but they did not know the number of agencies purchasing VA acquisition services.

There was no requirement for contracting activities to report on the scope, magnitude, or financial results of their interagency acquisition programs. With the exception of VASS, the VA contracting activities making interagency acquisitions did not prepare and submit financial statements or other similar reports on program operations to VACO.

OA&MM officials conduct periodic acquisition performance reviews of VA contracting activities, including those making interagency acquisitions. During FYs 2003 and 2004, OA&MM officials performed four acquisition performance reviews at the contracting activities we audited—one at VAMC Dallas, one at VAMC Temple, and two at VASS. Because VASS is dedicated entirely to conducting interagency acquisitions, the reviews

at that facility focused on interagency acquisitions, and those reviews resulted in positive changes. Based on the poor results of the first OA&MM acquisition performance review in November 2002, VASS personnel developed standard operating procedures. The subsequent performance review in April 2004 showed substantial improvement. The OA&MM acquisition performance review performed at VAMC Dallas also focused on interagency acquisitions, but the one for VAMC Temple did not distinguish deficiencies in interagency acquisitions from deficiencies in acquisitions for VA activities. For the period of our review, VHA did not conduct any performance reviews of interagency acquisitions at the contracting activities we audited.

### Management Actions Were Needed To Streamline Interagency Acquisition Programs

OA&MM officials in VACO were aware that some contracting activities had made inappropriate interagency acquisitions and were concerned that these activities might be violating applicable criteria to generate revenues. In response, they issued information letters concerning inappropriate acquisitions and unauthorized revenue generation. They also initiated action to have the Assistant Secretary for Management terminate VAMC Temple's agreements with the two CASUs it managed. However, lack of information relating to the magnitude of interagency acquisitions and the significance of related deficiencies prevented OA&MM officials from taking earlier or additional corrective actions. Furthermore, noncompliance with OA&MM's March 17, 2003, letter limiting contracting activities to "...goods, services, equipment, and construction normally obtained..." by VA for VA, as discussed in Issue 3, raises doubts about the effectiveness of any additional corrective actions OA&MM might have taken.

Insufficient oversight contributed to the illegal augmentation of VA appropriations, noncompliance with acquisition regulations, inappropriate acquisitions, and cost recovery deficiencies discussed in Issues 1–4. With more effective oversight, the deficiencies we identified would have been detected earlier and possibly prevented.

We believe the best alternative for improving oversight and addressing the deficiencies of interagency acquisition programs is to centralize management of these programs under OA&MM. Centralized management would enhance the visibility of interagency acquisitions, encourage standardization, enable managers to provide more effective oversight, and provide opportunities for achieving economies of scale. Also, centralization under OA&MM, which is funded by the VA Supply Fund, would enable VA to legally generate more revenues from the sale of interagency acquisition services using new statutory authority. Under authority provided by the Veterans Health Care, Capital Asset, and Business Improvement Act of 2003, 38 U.S.C. 8121(b), the VA Secretary may authorize the Secretary of Defense to make purchases through the VA Supply Fund in the same manner as VA activities. The Secretary granted DoD this authority in a memorandum signed August 15, 2005. This new authority provides VA additional opportunities to generate revenues from interagency acquisition programs

because, unlike the Economy Act, it does not limit reimbursements to actual or estimated costs.

## Conclusion

VA interagency acquisition programs needed more effective oversight to help detect and prevent the types of deficiencies we identified. We believe management of these programs should be centralized under OA&MM to strengthen oversight, improve effectiveness, and enable VA to take maximum advantage of the new statutory authority.

**Recommendation 6.** We recommended that the Under Secretary for Health and the Assistant Secretary for Management take action to centralize management of all VA interagency acquisition programs under OA&MM.

### Under Secretary for Health Comments

The Under Secretary for Health agreed in part with the recommendation. He agreed to transfer management of interagency acquisitions made under the authority of the Economy Act to OA&MM by February 2007. However, he did not agree to transfer management of interagency acquisitions made under the authority of the VA-DoD Healthcare Resources and Emergency Operations Act pending an opinion by the VA OGC concerning restrictions on using this authority. The opinion is expected by June 2006.

### Assistant Secretary for Management Comments

The Assistant Secretary for Management agreed with the recommendation and stated that OA&MM will work closely with VHA to ensure an orderly transfer of interagency acquisition functions to OA&MM.

### Office of Inspector General Comments

We consider this issue unresolved pending the Under Secretary's decision concerning interagency acquisitions made under the authority of the VA-DoD Healthcare Resources and Emergency Operations Act. We will follow up on the Under Secretary's decision and on the completion of planned actions.

## Under Secretary for Health Comments

**Department of  
Veterans Affairs****Memorandum**

Date: MAR 29 2006

From: Under Secretary for Health (10)

Subj: OIG Draft Report, *Audit of VA Acquisitions for Other Government Agencies*,  
Project No.: 2004-03178-R6-0435 (EDMS Folder 341583)

To: Assistant Inspector General for Audit (52)

1. I have reviewed the draft report and I concur with the report and with recommendations 1, 3, and 4, which are directed to the Veterans Health Administration (VHA). I concur in part with recommendation 6, which is also directed to VHA. I agree that appropriate oversight and management is needed to ensure that VA interagency acquisition programs are compliant and operate efficiently. The Veterans Health Administration (VHA) is currently in the process of working with the Deputy Assistant Secretary for Acquisition and Materiel Management for a more centralized management of VA interagency acquisition programs that utilize the Economy Act. Attached is an action plan outlining the transition of those VHA interagency acquisition programs to the Office of Acquisition and Materiel Management (OA&MM).

2. While most of the interagency acquisitions reviewed in the report utilize the Economy Act, there are some VHA interagency acquisition programs that utilize the VA/DoD Health Resources and Emergency Operations Act, 38 U.S.C. 8111, as mentioned on page 4 of the report. VA's Office of General Counsel (OGC) is in the process of preparing a ruling on the restrictions of using this authority in VHA interagency acquisition programs. Transfer of acquisitions that utilize 38 U.S.C 8111 to OA&MM, as stated in recommendation 6, is pending OGC ruling. OGC is expected to have their ruling completed by June 2006.

3. Thank you for the opportunity to review the draft report. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 565-7688.



Jonathan B. Perlin, MD, PhD, MSHA, FACP

Attachment



**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 1a:** We recommend that the Under Secretary for Health require VHA contracting activities making interagency acquisitions to maintain accurate and detailed records of the costs incurred, use those costs to establish service fees, and adjust service fees as necessary.

Concur

The VHA Chief Prosthetics and Clinical Logistics Officer (P&CLO) is working with the Deputy Assistant Secretary for Acquisition and Materiel Management (OA&MM) to centralize VHA contracting activities making interagency acquisitions, that have been developed using the Economy Act, under (OA&MM). During the transition to OA&MM central management, VHA's P&CLO and Chief Financial Officer (CFO) will obtain quarterly reports of costs incurred and revenues collected to ensure that appropriate reconciliations are made to adjust service fees. If report findings show a need for corrective action, VHA and OA&MM will take appropriate measures to ensure that reconciliations are made to adjust service fees. The first report will be required by April 30, 2006, with additional quarterly reports required in June and September 2006. We expect to have sufficient information to verify compliance by the end of FY 2006, with a final report in October 2006.

In process

October 31, 2006

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 1b:** We recommend that the Under Secretary for Health take action to identify expired funds corresponding to the excess revenues retained by VAMC Dallas and VAMC Temple for FYs 2003 and 2004 and, based on availability of such funds, transfer the appropriate balances to the miscellaneous receipts account of the U.S. Treasury's General Fund.

Concur

VHA's P&CLO and CFO will require quarterly reports from VHA contracting activities making interagency acquisition under the Economy Act on the costs incurred and revenues collected by Dallas and Temple VAMCs. The first quarterly report will be used to identify all outstanding excess revenues from 2003 and 2004 at Dallas and Temple VAMCs, and document transfer of appropriate balances to the U.S. Treasury. Due to the various durations of affected contracts in FYs 2003 and 2004, we estimate that assessment of costs and revenue and balance transfer from both VAMCs will be completed by the end of FY 2006, with a final report in October 2006.

In process

October 31, 2006

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 1c:** We recommend that the Under Secretary for Health require VHA contracting activities operating interagency acquisition programs in FYs 2005 and 2006 to assess whether similar conditions with excess revenues exist and to take corrective actions as appropriate.

Concur

VHA's P&CLO and CFO will require quarterly reports from VHA activities making interagency acquisition programs under the Economy Act on the costs incurred and revenues collected to ensure that appropriate reconciliations are made to adjust service fees. The second quarterly report will be used to identify all outstanding excess revenues from FYs 2005 and 2006, and document transfer of appropriate balances to the U.S. Treasury. Due to the various durations of affected contracts in FYs 2005 and 2006, we estimate that assessment of costs and revenue and balance transfer from both VAMCs will be completed by the end of FY 2006, with a final report in October 2006.

In process

October 31, 2006

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 3a:** We recommend that the Under Secretary for Health provide refresher training for contracting officers making interagency acquisitions and their supervisors concerning preparation of acquisition plans, justifications for noncompetitive acquisitions, completion of required VACO reviews, and designation of COTRs.

Concur

VHA's Chief Prosthetics and Clinical Logistics Officer (P&CLO) has worked closely with OA&MM to identify appropriate training for VHA contracting staff. VHA's P&CLO is working with OA&MM to transfer VA interagency acquisition programs under the Economy Act under OA&MM. For this reason, no new interagency acquisitions using the Economy Act will be authorized by VHA staff.

Refresher training for contracting officers and their supervisors making interagency acquisitions under 38 U.S.C 8111 is pending VA General Counsel (OGC) ruling on the restrictions of using this authority in interagency acquisitions. OGC's ruling is expected by June 2006.

In process

June 1, 2006

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 3b:** We recommend that the Under Secretary for Health require that contracting activities making interagency acquisitions establish quality assurance programs to assess compliance with applicable criteria.

Concur

VHA's Chief Prosthetics and Clinical Logistics Officer (P&CLO) is working with the Office of Acquisition and Materiel Management (OA&MM) to transfer all VA interagency acquisition programs that have been utilizing the Economy Act under OA&MM. Therefore, a quality assurance program will not be developed for interagency acquisitions prior to the transition. The development of quality assurance programs for contracting activities making interagency acquisitions under 38 U.S.C 8111 is pending VA General Counsel (OGC) ruling on the restrictions of using this authority in interagency acquisitions. OGC's ruling is expected by June 2006.

In process

February 28, 2007

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 3c:** We recommend that the Under Secretary for Health monitor the contracting activities' compliance with regulations and VA policies governing interagency acquisitions.

Concur

VA interagency acquisition programs utilizing the Economy Act will be transferred under Office of Acquisition and Materiel Management (OA&MM). VHA's Chief Prosthetics and Clinical Logistics Officer will collaborate with OA&MM to request monitoring of close-out and transition activities by the Office of the Assistant Secretary for Management.

In process

February 28, 2007

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 4a:** We recommend that the Assistant Secretary for Management and the Under Secretary for Health take action to train contracting officers making interagency acquisitions under the Economy Act and their supervisors concerning applicable VA policy.

Concur

VA interagency acquisition programs utilizing the Economy Act will be transferred under Office of Acquisition and Materiel Management (OA&MM), and VHA interagency acquisition activities will be discontinued. Therefore, specialized training for VHA contracting officers and their supervisors under the Economy Act will not occur. During the transition of acquisition programs utilizing the Economy Act to centralized management under OA&MM, VHA's Chief Prosthetics and Clinical Logistics Officer will work with OA&MM to identify the training necessary to ensure that all contract activities are conducted appropriately.

Training for contracting officers and their supervisors making interagency acquisitions under 38 U.S.C 8111 is pending VA General Counsel (OGC) ruling on the restrictions of using this authority in interagency acquisitions. OGC's ruling is expected by June 2006.

In process

February 28, 2007

**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 4b:** We recommend that the Assistant Secretary for Management and the Under Secretary for Health monitor the appropriateness of interagency acquisitions.

Concur

VHA's Chief Prosthetics and Clinical Logistics Officer's (P&CLO) memo, dated January 17, 2006, discontinued the development of new interagency acquisitions. The appropriateness of existing contracts utilizing the Economy Act will be determined by the P&CLO, as needed, until after the transition.

In process

September 30, 2006



**Action Plan in Response to:** OIG Draft Report, Audit of VA Acquisitions for Other Government Agencies (EDMS 341583)

**Project No.:** 2004-03178-R6-0435

**Date of Report:** February 7, 2006

Recommendations/ Actions	Status	Completion Date
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**Recommended Improvement Action 6:** We recommend that the Under Secretary for Health and the Assistant Secretary for Management take action to centralize management of all VA interagency acquisition programs under OA&MM.

Concur

VHA's Chief Prosthetics and Clinical Logistics Officer's (P&CLO) will work with the Office of Acquisition and Materiel Management (OA&MM) in a joint effort to transfer interagency acquisition programs utilizing the Economy Act to centralized management under the Assistant Secretary for Management. Current contracts will be phased out as options to renew are due, or the contract comes to a close. It is anticipated that all acquisition activity utilizing the Economy Act will be terminated in VHA no later than February 28, 2007.

VA's Office of General Counsel (OGC) is in the process of preparing a ruling on the restrictions of utilizing the VA/DoD Health Resources and Emergency Operations Act, 38 U.S.C. 8111 in interagency acquisition programs. OGC is expected to have their ruling completed by June 2006.

In process

February 28, 2007

## Assistant Secretary for Management Comments

Department of  
Veterans Affairs

### Memorandum

Date: APR 19 2006  
From: Assistant Secretary for Management (004)  
Subj: Draft Report, Audit of VA Acquisitions for Other Government Agencies (Project No. 2004-03178-R6-0435), EDMS 344080  
To: Assistant Inspector General for Audit (52)

1. Thank you for the opportunity to review and comment on the subject draft report. Attached are the Office of Management's comments and planned corrective actions. We concur with all the recommendations with the exception of 5(b).
2. The Office of Management is committed to resolving the issues noted in the draft report. Please direct any questions to Ms. Barbara Latvanas, Chief, Acquisition Policy Division (049A5A), at (202) 273-7808.



Robert J. Henke

Attachment

**Assistant Secretary for Management's Comments to  
Office of Inspector General's Report**

**Recommendation 2(a): We recommend that the Assistant Secretary for Management coordinate with the National Cooperative Administrative Support Unit (CASU) Board to request transfer of the excess revenues collected by Southeast Regional and Greater Hampton Roads CASUs for Fiscal Year (FY) 2003 and 2004 to the Treasury's miscellaneous receipts account.**

Concur

Target Completion Date: July 31, 2006

The National CASU Board is not a decision-making authority in this matter. As such, the Assistant Secretary for Management will direct the Board to transfer excess revenues to the Treasury's miscellaneous receipts account. The Office of Finance (047) will coordinate the transfer with the office of the Under Secretary for Health.

**Recommendation 2(b): We recommend that the Assistant Secretary for Management coordinate with the National CASU Board to determine the appropriate disposition of the fund balances remaining in the CASUs' retained earnings accounts.**

Concur

Target Completion Date: July 31, 2006

Staff from the Office of Finance (047) will coordinate with the National CASU Board to determine the appropriate disposition of the fund balances remaining in the CASUs' retained earnings accounts.

**Recommendation 3(a): We recommend that the Assistant Secretary for Management take action to provide refresher training for contracting officers making interagency acquisitions and their supervisors concerning preparation of acquisition plans, justifications for noncompetitive acquisitions, completion of required VA Central Office (VACO) reviews, and designation of contracting officer's technical representatives (COTRs).**

Concur

Target Completion Date: March 31, 2007

Upon completion of Recommendation No. 6 to centralize management of VA interagency acquisition under the Office of Acquisition and Materiel Management (OA&MM), OA&MM will assign and train highly-qualified contracting officers to perform interagency acquisitions. Training will include preparation of acquisition plans, justifications for noncompetitive acquisitions, and completion of required reviews.

**Recommended Improvement Action 3(b): We recommend that the Assistant Secretary for Management take action to require that contracting activities making interagency acquisitions establish quality assurance programs to assess compliance with applicable criteria.**

Concur

Target Completion Date: March 31, 2007

Since the Office of Management (OM) has concurred with Recommendation No. 6, this recommendation is moot for field activities. OA&MM will establish internal quality assurance controls as part of the centralized management of applicable acquisitions.

**Recommended Improvement Action 3(c): We recommend that the Assistant Secretary for Management take action to monitor the contracting activities' compliance with regulations and VA policies governing interagency acquisitions.**

Concur

Target Completion Date: March 31, 2007

Since OM has concurred with Recommendation No. 6, this recommendation is moot for field activities. OA&MM will establish internal quality assurance controls as part of the centralized management of applicable acquisitions.

**Recommended Improvement Action 4: We recommend that the Assistant Secretary for Management provide additional guidance explaining how OA&MM Information Letter (IL) 049-03-06 should be applied to ongoing contracts. We also recommend that the Assistant Secretary for Management take action to (a) train contracting officers making interagency acquisitions under the Economy Act and their supervisors concerning applicable VA policy.**

Concur

Target Completion Date: March 31, 2007

Upon completion of Recommendation No. 6 to centralize management of VA interagency acquisition under OA&MM, specialized training for interagency agreements under the Economy Act will be provided to applicable OA&MM contracting officers and their supervisors. Likewise, OA&MM will provide additional guidance regarding IL 049-03-6.

**Recommended Improvement Action 4(b): We recommend that the Assistant Secretary for Management monitor the appropriateness of interagency acquisitions.**

Concur

Target Completion Date: March 31, 2007

OA&MM will perform scheduled reviews of these acquisitions to ensure compliance.

**Recommended Improvement Action 5(a): We recommend that the Assistant Secretary for Management require that VA Special Services (VASS) and Service and Distribution Center (SDC) personnel aggressively pursue collection of the outstanding accounts receivable owed by other Government agencies (OGAs).**

Concur

Completed

The SDC has implemented a plan to aggressively collect all receivables owed by OGAs for work performed by VASS and other offices within OA&MM. The SDC prepares a monthly report that shows the aging of receivables-- from 0-30, 30-60, 60-90, and over 90 days old. This report is reviewed by top management. At VASS, there are only \$500,000 of receivables over 90 days old, out of a total of \$11 million in receivables, or 4.5%. Personnel at the SDC and VASS work together to focus on collecting the older items.

**Recommended Improvement Action 5(b): We recommend that the Assistant Secretary for Management require that VASS and SDC personnel ensure the estimated costs of future interagency acquisitions are transferred to VA as advance payments before making the acquisitions.**

We non-concur and offer comment and an alternative action plan.

Accepting advances would eliminate the problem of uncollected receivables but would create other accounting difficulties and would require a change to the memorandum of agreement between the U. S. Air Force and VA. We believe that a better solution would be to start processing collections and payments under the Department of Defense's (DOD) Wide Area Work Flow (WAWF) system, which allows access to and obligation of DOD funds without actually transferring those funds to VA. We will soon pilot use of WAWF and expect improved efficiency in contracting and accounting as a result. We believe use of WAWF will ensure that VA is paid properly and promptly in the future.

Status: In process.

Target Completion Date: November 30, 2006

**Recommended Improvement Action 5(c): We recommend that the Assistant Secretary for Management require that VASS and SDC personnel promptly review all unbilled purchase card transactions, bill the requesting agencies when feasible, and cancel any transactions that cannot be billed.**

Concur

Completed

The VASS no longer uses purchase cards and there are no unbilled purchase card transactions. Of the over \$30 million in unbilled credit card transactions that existed when use of the cards was discontinued, all but \$575,000 was collected. The \$575,000 was retired in September 2005.

**Recommended Improvement Action 6:** We recommend that the Assistant Secretary for Management take action to centralize management of all VA interagency acquisition programs under OA&MM.

Concur

OA&MM will work closely with the Veterans Health Administration (VHA) to ensure an orderly transfer of appropriate interagency acquisitions--applicable to the Economy Act--to centralized management under the Assistant Secretary for Management. At the request of VHA, transfer of acquisitions applicable to the VA/DoD Health Resources and Emergency Operations Act, 38 U.S.C. 8111, is pending a ruling by the Office of the General Counsel.

Status: In process

Target Completion Date: February 28, 2007

## OIG Contact and Staff Acknowledgments

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OIG Contact	Michael E. Guier (214) 253-3300
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Acknowledgments	Theresa Cinciripini Curtis Hill Michael Jacobs Nicolas Torres
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